

Code No: MB1348/R13

MBA IV Semester Supplementary Examinations, April-2018

FINANCIAL RISK MANAGEMENT

Time: 3 Hours

Max. Marks: 60

*Answer Any FIVE Questions
 All Questions Carry Equal Marks
 Question No. 8 is Compulsory*

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| 1. a | Define the concept 'Risk'. Explain the nature and scope of Risk. | 6M |
| b | What are the different types of Risk? Explain. | 6M |
| 2. a | How does one compute the full valuation historical VaR for a portfolio of derivatives? | 8M |
| b | What is Asset liability Management? | 4M |
| 3. a | What is the role of derivative securities to manage risk and exploit opportunities to enhance returns? | 6M |
| b | Who are the players and participants in the derivative market. | 6M |
| 4. a | What is required for the price of a forward contract to be such that there is an arbitrage opportunity? | 6M |
| b | What is the difference between cash and physical delivery for future contract? | 6M |
| 5. a | How does diversification across exposure maturities reduce hedging costs. | 8M |
| b | What is cross hedge? | 4M |
| 6. a | When and how are the cash flows of a swap equivalent to those of a bond portfolio? | 8M |
| b | What is the swap spread? | 4M |
| 7. a | What is a Binomial tree for the stock price? | 6M |
| b | How do dividends affect the pricing of options in the Binomial Model? | 6M |
| 8. | Case Study:
An MNC has accounts receivables of \$ 1.8 billion and accounts payable of \$940 million. It also has borrowed \$700 million. The current spot rate is \$1.8138/ £.
i. What is the MNC's dollar transaction exposure in dollar terms? In pound terms?
ii. Suppose the pound appreciate to \$2.1122/£, what is the MNC's gain or loss, in pound terms, on its dollar transaction exposure? | 12M |

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